2 4 MAY 1963

MEMORANDUM FOR: Deputy Director (Intelligence)

SUBJECT : The World Sugar Situation

1. Attached is a background paper on the world sugar situation, giving somewhat more detail than the brief, current intelligence memoranda prepared to date.

2. We plan to publish this paper as a Current Support Memorandum.

OTTO E. GUTHE
Assistant Director
Research and Reports

Approved For Release 2005/01/31 : CIA-RDP79T00429A000600010008-5

[redacted]

THE WORLD SUGAR SITUATION

RECENT DEVELOPMENTS AND THE CURRENT SITUATION

The current world sugar price of more than 12 cents per pound is more than 4 times the level of a year ago and the highest in more than 40 years. The price increase, most of which has taken place within the last 6 months (see Table 1) is attributable primarily to a tight supply situation.

World sugar consumption, which has been increasing about 4 percent (2 to 3 million tons*) annually, is expected to exceed total production by about 3 million tons in 1962/63,** the first year since 1956/57 in which consumption has exceeded production. World sugar production of about 51 million tons in both 1961/62 and 1962/63 was about 4 million tons below the peak level achieved in 1960/61. Carry-over stocks of sugar in 47 countries, which normally account for about 75 percent of total world sugar production (including Cuba, but excluding other Bloc countries), at the beginning of the 1962/63 season were about 19 percent -- almost 2 million tons -- below those of a year earlier. Cuban stocks had been practically liquidated and Free World stocks were declining; however, inventories in the USSR were unusually high.

A number of factors had an adverse effect on world sugar production during the 1961/62 and 1962/63 seasons. Many countries particularly in Latin America, had lowered their sugar production targets following the 1960/61 season because of burdensome stocks. Also, unfavorable weather in Europe for two consecutive years reduced yields of sugar beets. Finally, sugar production in Cuba in 1963 is expected to be about 4 million tons -- substantially less than the relatively poor crop of 4.8 million tons in 1961/62.

* All sugar tonnage figures in this paper refer to centrifugal sugar only. Centrifugal sugar includes cane and beet sugar produced by the centrifugal process and is the principal kind of sugar moving in international trade. Centrifugal sugar includes about 90 percent of total world sugar production. All tonnage figures in this paper are in terms of metric tons.

** The years shown refer to the crop harvesting years, May through April, with the season's production credited to the year in which the harvest began.

[redacted]

[redacted]

DEVELOPMENTS FROM WORLD WAR II TO 1960/61

Sugar production and consumption rose rapidly after World War II. The sugar industries of all continents, aided by protectionist policies and technological improvements both in agriculture and in processing, rapidly expanded production. Between 1947-49 and 1960-61, total world production of sugar nearly doubled. The greatest increases took place in Asia (excluding Communist China) and in South America. Very substantial increases also took place in the countries of North and Central America other than the United States and Cuba. Production more than doubled in countries which were net importers at the beginning of the decade, doubled in self-sufficient countries, and increased by about 40 percent in net exporting countries.

As a result of the tendency towards self-sufficiency in importing countries, the proportion of exports in relation to world production went down from a peak of about 40 percent in 1953 to about 30 percent in 1961. Although consumption increased by more than 50 percent, international trade in sugar remained comparatively stable until 1960-61, when the USSR and Communist China became the major outlets for Cuban supplies. This relative stagnation of the sugar trade meant that potential exportable supplies tended to exceed the demand for imports, but, due to regulation of the sugar market by a system of export quotas, it was nevertheless possible to maintain a precarious equilibrium.

During the last decade the trends in per capita consumption differed widely between various regions. In North America and Oceania, consumption remained stable at a high level; in North Western Europe, it increased during the first part of the decade, but showed little progress after 1956. In most other regions, per capita consumption went up steadily, the greatest percentage increases being generally recorded in the regions starting from a low consumption level.

A major structural change in the world sugar economy began in 1960. The established postwar pattern until that year found the Sino-Soviet Bloc* a net exporter, although only of marginal quantities. Cuba, on the other hand, was the single most important source of

---

* Includes the USSR, Communist China, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania.

25X1 [redacted]

export supplies, accounting for about 30 percent of world exports. For example, during the five year period 1955-59, out of its total annual exports of 5.2 million tons of raw sugar,* only about 270,000 tons went to the Sino-Soviet Bloc. But in 1960, there was a sharp change in the direction of Cuban exports to new outlets in the Sino-Soviet Bloc. This change in the pattern of world trade in 1960 was facilitated by exceptionally favorable weather conditions and record crops outside the Sino-Soviet Bloc. In many countries, large increases in production took place, notwithstanding the introduction that year of measures to restrict the area under crops. In 1961, Cuba shipped close to 4.8 million tons to the Sino-Soviet Bloc (75 percent of its total exports) and only 1.6 million tons to other destinations. While some imported Cuban sugar was either re-exported from the Sino-Soviet Bloc or made exports of domestic beet sugar possible, the total exports to non-Bloc areas from the Sino-Soviet Bloc and Cuba together were less than four million tons, as compared with about six million in 1959.

Between January 1960 and September 1962, Cuba reported shipments of about 10.7 million tons of sugar to the Bloc, representing 63 percent of its total exports. The largest Bloc importers were the USSR (65 percent), followed by Communist China, Poland, East Germany, and Czechoslovakia. Beginning in 1962, the Bloc had agreed to import annually through 1965 almost 4.9 million tons of Cuban sugar. This amount was to be distributed in millions of tons, as follows: USSR, 3.0; Communist China, 1.2; European Satellites, 0.56; and North Korea, 0.10. Faced with a relatively poor sugar crop in 1962, however, Cuba reduced the 1962 allotment to the Bloc -- mostly to the USSR -- by 500,000 tons. Although actual exports to the Bloc are estimated to have totaled only 3.7 million tons in 1962, about 500,000 tons of the 4.8 million tons imported by the Bloc in 1961 are estimated to have been on 1962 accounts. Therefore, Cuba came close to fulfilling the revised sugar commitments with the Bloc for 1962.

IMPACT OF THE CHANGED SUGAR SITUATION ON THE US AND ON THE COMMUNIST BLOC

Any significant change in world sugar supplies is of considerable importance to the United States. The United States is the world's largest importer of sugar, taking from foreign suppliers over two-fifths of its total sugar needs -- currently about 9 million tons,

* Raw sugar is sugar that has not been fully refined to remove the impurities. Although edible, it generally is not consumed in the raw state (100 parts of raw sugar will yield about 92 parts of refined sugar).

raw value, per year. Domestic United States sugar growers are protected by a system of import quotas.

The US sugar industry operates under a quota system that limits, by areas, how much sugar can be marketed in the US each year. These quotas were suspended during the World War II period, but were reestablished, with some modifications, in 1948. Total quota supplies and their distribution by areas of origin in 1948 and 1959-63 were:

	Percentage of Total				
	1948	1959	1961	1962	1963 1/
Domestic beet area	24	24	27	26	28
Mainland cane	6	6	8	8	9
Hawaii	10	11	11	11	11
Puerto Rico	14	10	10	9	9
Virgin Islands	2/	2/	2/	2/	2/
Philippines	4	11	14	13	12
Cuba	41	35	0	0	0
Other countries	1	3	30	33	31
Total	100	100	100	100	100
Total supplies (1,000 tons)	6,439	8,388	8,801	9,072	8,890

1. In early May the 1963 quota was raised by 544,300 tons, bringing the total to 9.4 million tons.
2. Less than 0.5 percent.

Changes in the proportionate shares of the various areas between 1948 and 1959 were relatively minor. The largest change occurred in the Philippines, an increase from 4 to 11 percent. This was a result of the recovery of the sugar industry from the destruction suffered during World War II. Amendments to the Sugar Act in 1951 and 1956 reduced slightly the quota for Cuban sugar.

A drastic shift occurred, however, in mid-1960 when sugar imports from Cuba were suspended. Since that time nearly all of the supply formerly coming from Cuba has been purchased from other foreign countries. The Sugar Act includes a formula for allocating such supplies among countries having "statutory" quotas in the US market and also directions for obtaining quantities not available under the formula from the same or other countries.

25X1

Although the shift in the US source of supply from Cuba to other countries has been much easier than many people expected, various problems have arisen. Deliveries from Cuba could be made to the US within a few days after purchase. Much of the new supply must come far greater distances, and delivery dates are less certain. This creates a need for larger inventories in the US, and more ships to maintain the needed volume of imports.

During the recent price increases some foreign producers apparently have been holding back in filling their assigned quotas hoping for still higher prices. Early in May the Department of Agriculture raised the total sugar quota to 9.4 million tons, matching the record set in 1960. This enlarged the "global" quota by 200,800 tons above the 1.36 million tons set previously. The US "global" quota (formerly assigned to Cuba) is filled on a first-come, first-served basis by foreign producers.

There is no indication to date that the delivery of 10.7 million tons of Cuban raw sugar to the Sino-Soviet Bloc during the period 1960-62 has had any profound impact on the Bloc's ambitious long-term plans for expansion of its domestic production and its per capita consumption of refined sugar. Certainly these imports have prompted a number of adjustments, including an increase in Soviet stocks of sugar (a move involving storage problems and some spoilage), the allocation of some domestically produced sugar beets for use as livestock feed, increased sales by the European Satellites of sugar in markets of the Free World (occasionally at a loss), and the reallocation by Communist China of certain areas formerly devoted to sugar beets and sugarcane to the sowing of food grains in an attempt to alleviate serious internal food shortages. For the most part, however, these adjustments have not been large and have been accomplished reasonably effectively, although not without some cost.

Although there are no firm data available on the amount of surplus sugar currently held by the USSR, a reasonable estimate can be made. Soviet stocks of sugar as of 1 January 1963 are estimated to have been about 4 million metric tons (refined value). The size of Soviet stocks before the build-up in recent years suggests that the Soviet Union now has about one to two million tons of sugar which could be sold on the world market (See Table 2).

25X1

[redacted]

OUTLOOK

The Soviets may sell sugar from their surplus stocks [redacted] 25X1

25X1

[redacted]

The evidence currently available indicates that Cuba will sell 1.0 million - 1.2 million metric tons of sugar to the free world during 1963 compared with 1.4 million metric tons in 1962. [redacted] 25X1

[redacted] 25X1

Of greater uncertainty than the volume of sugar to be shipped to the free world by Cuba in 1963 is the price at which the sugar is sold. [redacted] 25X1

25X1

[redacted] Cuba sells sugar under a variety of price arrangements. Some sales are made on the basis of the spot price prevailing at the date of the contract, some on the basis of the spot price prevailing as of the month of delivery, and some on the basis of an average price in the month of delivery but with specified maximum and minimum price. Thus Cuba will deliver

[redacted] 25X1

 25X1

[redacted]

sugar to the free world during 1963 at prices ranging all the way from the $70 per metric ton [redacted] to probably at least the $263 per metric ton prevailing currently in the world market. [redacted] If the mid-point of about $165 per metric ton is taken as the basis for an estimate, the estimated free world sales would be $165 million to $200 million, depending upon the volume shipped.

25X1 25X1 25X1 25X1 25X1

Given the estimated range of exports to the free world, sales to the Bloc will be 2.0 million - 2.5 million metric tons compared to 3.7 million metric tons in 1962. [redacted]

25X1 25X1

Assuming that 1963 sugar production is between 3.8 and 4.0 million metric tons and that domestic consumption continues at about 0.5 million metric tons, total export earnings from sugar would be $365 million - $400 million. The value of sugar exports during 1962 was about $430 million. [redacted]

25X1 25X1

The sugar shortage, and unusually high prices seem likely to persist for awhile. Forecasts for the 1963/64 crop are for another year of production less than consumption. The futures market reflects this judgment. On May 20 the futures market closed as follows:

SUGAR (World Contract)*

July	11.95	May	10.66 b
September	11.48 b	July	10.55 n
October	11.32 b	September	10.22 b
March	10.83 b		

b = bid
n - nominal

* No. 8 Contract, which is for bagged sugar F.O.B. and stored at Greater Caribbean ports (including Brazil).

25X1

25X1

The European beet crop which will be harvested this fall is the first source which could raise supplies substantially to meet increased demand. However, indications are that European sugar beet plantings this spring are up only 3 percent above last year, far below earlier expectations. A very late spring in Europe was a major factor holding down the increase in plantings, and the lateness of the season also dimmed early prospects for higher yields this year.

Sugar has had its ups and downs in the past and no doubt will continue to do so in the future. The big question now is when will production again equal or exceed consumption. Future production will depend to a large extent upon government policies as well as the response of private initiative to higher prices and other developments on the international sugar scene.

For the long run there is every reason for assuming that the forces which have operated in the past to raise production will continue to do so. Many areas can significantly expand sugar production. For example, the Philippines government is encouraging and offering assistance to both growers and processors to expand production. (See Table 3). Beginning in 1961 sugar again became the leading dollar earner among Philippine exports. This was due to the increased quotas given the Philippines in the US market as a result of the elimination of the Cuban sugar quota. Sugar is also a major foreign exchange earner for Taiwan. The Taiwan Sugar Corporation is currently attempting to obtain a $30 million loan from a US financial organization to expand sugar production. A study by the Food and Agricultural Organization of the U.N. has concluded that very substantial expansion can be anticipated in Africa, the Near East, Latin America, and to a smaller extent in Asia and Oceania. An abundance of excellent sugar land, coupled with relatively low-cost labor, skilled technological and business management and adequate capital resources, will greatly facilitate production expansion, particularly in Latin American countries.

25X1

Table 1. World 1/ Raw Sugar Prices

Cents Per Pound

Average 1925-29	2.20	1962 - March	2.65
		April	2.69
Average 1934-38	0.96	May	2.60
		June	2.63
Average 1950-53	4.54	July	2.92
		August	3.24
1954	3.26	September	3.18
		October	3.28
1955	3.24	November	3.65
		December	4.29
1956	3.47		
		1963 - January	5.41
1957	5.16	February	6.06
		April 29	8.30
1958	3.50	May 20th	11.60
1959	2.97		
1960	3.14		
1961	2.91		
1962	2.98		

[redacted]

Table 2. The Sugar* Situation in the Soviet Union

Million Metric Tons

Year	Beginning Stocks	Production 1/	Net Trade 2/	Total Supply	Consumption 3/	Ending Stocks
1950	NA	2.52	+ .26	NA	NA	1.46
1951	1.46	2.98	+ .22**	4.66	2.77	1.89
1952	1.89	3.07	+ .20**	5.16	3.27	1.89
1953	1.89	3.43	+ .26**	5.58	3.78	1.80
1954	1.80	2.61	+ .40**	4.81	4.24	0.57
1955	0.57	3.42	+ .52	4.51	3.80	0.71
1956	0.71	4.35	- .05	5.01	4.26	0.75
1957	0.75	4.49	+ .10	5.34	4.29	1.05
1958	1.05	5.43	- .02	6.46	4.11	2.35
1959	2.35	6.01	- .01	8.35	5.49	2.86
1960	2.86	6.36	- .01	9.21	6.05	3.16
1961	3.16	8.38	- .18	11.37	7.11	4.26
1962	4.26	7.80	- .626	11.43	7.51	3.92
1963	3.92					

1/ Includes sugar refined in Soviet refineries from imported raw sugar.
2/ Does not include raw sugar imports.
3/ Difference between total supply and ending stocks.
* Refined.
** Estimate.

Table 3. Production of Sugar on Taiwan and Philippines

Thousand Tons (Raw Value)

	Taiwan	Philippines
1958/59	968	1,372
1959/60	798	1,387
1960/61	948	1,317
1961/62	724	1,468
1962/63	760*	1,623

* The drop in production between 1960/61 and 1962/63 resulted from both a decrease in acreage and lower yields per acre.

Approved For Release 2005/01/31 : CIA-RDP79T00429A000600010008-5

25X1

Approved For Release 2005/01/31 : CIA-RDP79T00429A000600010008-5

OFFICE OF ...

DATE: 24 May

TO: Mr. Cline

25X1

FROM [redacted]

SUBJECT: World Sugar Market

REMARKS: You asked to be brought up to date on why sugar has become such a sticky subject. This paper suggests that, while there is a world shortage that has quadrupled last year's price level, natural forces will eventually re-establish the supply/demand equilibrium.

Among the several factors contributing to the current anomalous situation are the constantly expanding demand, the reduced Cuban production, and the controls imposed by various governments.

I found this a difficult paper to skim; I hope you have better going with it.

25X1

[redacted] has advised that the Director will not need to see this paper; he has been following the situation and ORR will have a briefing paper for him Monday, along with their comments on Agriculture's paper for the NSC Standing Group.

CURRENT INFORMATION